philippine studies

Ateneo de Manila University • Loyola Heights, Quezon City • 1108 Philippines

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Philippine Studies vol. 18, no. 1 (1970): 147–160

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Fri June 30 13:30:20 2008

Economic Nationalism and Planned Stagnation

MICHAEL McPHELIN

PLANNING in a predominantly free enterprise society takes the form of policies of the national government aimed usually at speeding up economic growth and modernization or, sometimes, at giving the economy a particular character. Though the Philippine Government has an Investment Incentives Act aimed at stepping up growth, it chiefly pursues policies directed toward the Filipinization of the economy. The consequence, so far as growth is concerned, might be described as Burmese: the country has been pursuing a policy of planned stagnation. Understandably, stagnation is not the conscious end and purpose of planning here but it is the result of deliberate choice.

Like people all over the world, Filipinos need the good things of life promised by the Messiah: peace and plenty. With a population exploding as fast as any in the world and showing no signs of let-up in the years immediately ahead, Filipinos need jobs above all. They need more food, better care of their health, more solid schooling, for these are the things to be sought first. One other problem is of comparable importance. With the numbers of people dependent upon the natural resources of the country multiplying with alarming speed, it were bad enough if the natural resources of the land were fixed in amount. I refer to such basic resources as arable land, water, forests, and fisheries. But these are diminishing; fisheries in quality, and the others—because of inept management—in both quantity and quality. The conservation, indeed the recovery, of natural resources is badly needed. But it has not been made an objective of effective economic policy.

The prime aim of policy is Filipinization pursued in such a way as to be in collision with economic advance. A brand of nationalism which would have as its goal the development of this country to serve the needs and wants and interests of Filipinos would gain the support of all who work here, Filipinos and foreigners alike, simply because it would make for the good of all. Look, for example, at the countries of the European Common Market. The species of nationalism being pursued in fact is not nationalism *for* Filipinos. It is first of all a nationalism *against* foreigners; a quick review of the ultranationalists makes this clear. They do not contest the good being done to Filipinos; they are solely occupied with the gains being won by foreign investors, which they ingenuously condemn as exploitation, on the presumption—to them self-evident—that foreign investment is just another name for rapine. Second, it is a nationalism *by* Filipinos, but by the privileged few who erroneously judge that any business run by foreigners leaves one less opening for them. It positively and effectively discourages the assistance that can be gained for the good of all from the use of resources from outside: skills, techniques, capital, foreign exchange, business organization, management and marketing. Any economy, including the most affluent, which chooses to go it alone, chooses by the same decision to go ahead more slowly than need be. Think once again of the Common Market countries of Western Europe, of Japan, of Australia, Canada and Israel, of Taiwan, South Korea and Singapore. Think even of the United States, where resources from outside, notably fresh techniques of production, capital, but above all manpower—including manpower drained out of the Philippines, still play a vital part in that country's economic and cultural performance. It is evident that there is a brand of nationalism which works to the detriment of the people whose leaders espouse it; for this is the choice which the country's leaders have made. The nationalism embodied in Philippine economic policies is cast in the same mold as the xenophobic nationalism of poor, inert Burma.

It is not a question of whether one chooses to be a nationalist. This nation's reason-for-being is to serve the common good of Filipinos. It is purely a question of what kind of nationalist one chooses to be: wise or foolish.

At the moment the Philippine economy is — to put it mildly—in a mess. Absolutely and comparatively. I mean compared with near-by neighbors in Taiwan and Singapore, Thailand and South Korea. All who live here are more aware of the absolute state of things than the unkindest outside critics:

—population and the haunting spectre of Malthusian shortages; joblessness; subnormal diet and health; the disappointing level of literacy and skills; the dwindling natural resources; the fundamental frame of law and order so seriously shaken.

—The economic infrastructure is quite primitive: the infrastructure of roads, railroad, shipping and air transport, of power and communications. The common techniques of land-cultivation are so out-moded that, in remoter areas of the country, the traveler finds himself far out of the modern world.

—International payments show a chronic deficit.

—For the first time in its history the country finds its external debt embarrassingly heavy and impossible to manage by itself.

—Its exports are raw and too few and less valuable than they need be.

—Both capital and foreign exchange are scarce.

—Talents equal to the task of creating new businesses and new jobs are in very short supply.

—The peso is once again over-valued, about 50%; the perverse consequence of this is that exports are taxed, and imports subsidized at the official rate of exchange. (The freeing of the peso occurred after this was written.)

—Some controls upon the use of foreign exchange have been reintroduced and more are proposed.

—Frightened Filipino capital seeks asylum abroad, as much as can be gotten out.

—Foreign investment stays away enthusiastically.

—Tourism here—a potential foreign exchange earner and job creator, is like the weather in New England: people talk about it.

No wonder that Gross National Product per capita for 1968 is reported to be about ₱2 per person per day. That is Gross National Product, not disposable income per person. It was proudly reported, at that; the real growth of the economy over the previous year was reputedly 6.4%—much better than the average for the previous dozen years.

Each one could add details according to his own specialty to make the mess even stickier. I, as an economist, am conscious of shoddy economic analyses and of the lack of sober professional criticism of economic policy. As if these were not sufficient evils for the day, nature turned against us with its withering drought last summer—a threat to health, to the output of all crops, and to exchange earnings especially from sugar and coconuts.

To make a start in clearing up the mess, this country needs all the help it can get. My point is this: the kind of nationalism being promoted by national economic policy is xenophobic. It keeps away—indeed, it drives away—the foreign potential which has an indispensable role to play in nurturing economic development here—*a role which foreign investment plays in every underdeveloped country which is making a successful advance.*

II

The national policies which give expression to this suspicion and distrust of foreign enterprise are found both in the constitution and in the laws of the land. Citizenship requirements or requirements regarding the percentage of ownership by Filipinos in an enterprise impose limitations upon the business activities of foreigners. The Philippine Constitution, Article XII, Sectons 1 and 5, and Article XIV, Section 8, reserves the right to operate public utilities and to exploit the country's natural resources—soil, forests, mines, fisheries, salt and water—to Filipinos and to corporations 60% owned by Filipinos. This is a curiosity. It is possible to examine all the constitutions of the world's free nations collected here in preparation for the constitutional convention. The only other one which imposes limitations on the economic activities of foreigners is Burma's.

In 1946 parity with Filipinos was granted to Americans until July 3, 1974—and since then "parity" has become one of this country's obscenities. Otherwise, public utilities, farming on public lands, fishing, mining, salt-making and—if anyone ever gets around to making an issue of it—using water commercially, all these are reserved in the constitution to Filipinos.

The Retail Trade Nationalization Act (R.A. 1180) effective June 19, 1964, prohibits aliens or corporations whose stock is not wholly 100% owned by Filipinos from engaging directly or indirectly in retail trade. In applying the law, retail trade has been given a compass wider than that which the concept ordinarily has in commercial usage.

Since 1963 only Filipinos can engage in the Rice and Corn business (R.A. No. 3018). This law unhappily is understood to cover even businesses which use rice and corn as material inputs.

No banking institution may be established in the Philippines unless 60% of the ownership and two-thirds of the directors are Filipinos (R.A. 37). In actual practice, the Monetary Board of the Central Bank requires 100% Filipino ownership for new banks.

Before engaging in any economic activity in the Philippines, aliens and corporations more than 30% owned by aliens must secure from the Board of Investments a written certification that the enterprise will contribute to the "sound and balanced development of the economy."

In order to qualify for the tax-incentives offered by the Investment Incentives Act, a non-Filipino corporation (that is, one not 70% owned by Filipinos) must meet the following conditions:

First, it must operate in a pioneer area—in the manufacture or production of commodities or raw materials that have not been produced or are not being produced on a commercial scale. It proposes to engage in a pioneer project which, considering, second, the nature and extent of the capital requirements, third, the requisite technical skills and, fourth, the business risks, is judged by the Board of Investments to be beyond the capacity of Filipinos. Moreover, fifth, it obligates itself to become a Filipino National—70% Filipino-owned—within twenty years. How does that sound? Do the pioneering which we ourselves are incapable of, put up the capital, get the business going, take the risks, win the market and then get out. It is hardly alluring.

Technicians—think of talented people with some useful specialty—may be admitted into this country only on condition that the technical skills they possess are not available in the country. Final judgment rests not with their prospective employer, be he Filipino or foreigner, but with the Commissioners of Immigration. This law is used to make it hard for foreign personnel of international firms to secure visas or to extend their stay here.

There is still no treaty of trade and amity with Japan, the Philippines' second most important trading partner after the United States. In fact, most trading done by the Japanese working in the Philippines during the post-war period was illegal until four years ago, when it was legalized by the executive order of President Ferdinand Marcos.

It is the normal expectation here that from time to time the resident Chinese will be harassed. Certain acts of the Government—regarding retail trade, the business of rice and corn and the anti-dummy law—were aimed against them, in so far as loose scatter-shot can be aimed at any single target.

III

There are two issues which are especially hot now. One concerns the termination of the Laurel-Langley Agreement in 1974 and the question whether rights acquired by Americans, thanks to parity, will continue to be valid beyond 1974. This is the cause of the uncertainty which keeps so much from being done here in the area of natural resources—costly, risky and technically exacting oil exploration by Caltex, for example. It was a factor in inducing foreign stock-holders in Meralco and in the Philippine Long Distance Telephone Company to sell out their holdings in good time.

The other is the Magna Carta of Philippine Economic Freedom which originated in the House Special Committee on Socio-economic Planning whose chairman is Jose Laurel, Jr. The statement of policy appears not to have been drawn up in haste. It was the tenth draft which was discussed before Congress on May 15, 1969, after consultation with the Senate and the executive branch, the previous drafts having been reviewed and their expressions of ultranationalism somewhat bowdlerized by the National Economic Council and the Presidential Economic Staff.

The Magna Carta is in the form of a resolution to promulgate certain economic policies. Paramount among these are industrialization, the promotion of science and technology, as well as maximum employment and real income per capita.

—The attaining of these ends will be the joint responsibility of the State and of Filipino private capital.

—Whenever private entrepreneurs are shy and hesitant, "the state shall assume entrepreneurial functions"—that is, set up the enterprises —particularly in vital areas not yet fully developed.

—The local market is to be protected for the output of domestic producers not only by tariffs but also by exchange controls.

—The proper industrial financing institution — a state lending agency — shall be provided with sufficient capability to satisfy the credit requirements of industry.

—A State Development Authority shall be created—to play the role of economic Czar—by means of which government shall push through a program of industrial pioneering and development. This shall be a National Economic Development Authority with powers to plan and coordinate the nation's economic activities, public and private.

—The State shall accelerate the implementation of agrarian reform and shall promote agricultural development, irrigation, better farming techniques, co-operatives, the elimination of middlemen, rural electrification and land survey and titling.

—Family planning shall be encouraged.

—Natural resources shall be conserved, including scenic spots and other natural beauties attractive to tourists.

—Foreign investment is welcome to assist in the country's economic development. It shall not, however, be allowed to dominate the national economy.

—Foreign borrowing shall be preferred over foreign investment.

—National treatment—that is, equal treatment with Filipinos—shall not be accorded to foreigners, save in exceptional, somewhat unavoidable circumstances.

—Efforts shall be made to place all aspects of distributive trade in Filipino hands.

—All institutions performing financial functions shall be controlled by Filipinos.

—Strategic industries shall be regulated as business affected with public interest. Steps shall be taken to place them under the control of Filipinos.

Finally, one sage counsel: "Austerity and self-reliance are the keystones to progress and national greatness."

The resolution is evidently long on ends, short on means. That comment first. Second, it expects much too much of Philippine private resources and of the State. There is the recommendation that where private entrepreneurs are shy and hesitant, the State shall step into the void by creating and running enterprises, especially in vital areas: presumably the way the government is running the Philippine National Railways. In general, the Magna Carta conveys the impression that nobody ever told its authors that the Philippine Republic already has a quarter-century of its own economic history behind it, an experience which teaches several basic lessons emphatically. One is that the best managed of all government corporations — the National Power Corporation — just does not compare in efficiency with a moderately well-run private corporation. Another is that Exchange Controls is the title of the most inglorious chapter in the economic history of the young Republic. It marked the period when every Filipino businessman, including the most conscientious, was faced with the choice of transgressing the law by engaging in crooked exchange transactions or of failing in business. "Graft and corruption" became the synonym for public administration, there was hatched a brood of ten-percenters, plain and fancy smuggling became artfully developed, while the Filipino consumer was made the victim of overprotection—paying a high price for goods of limited variety and low quality. These were the days of the Cuadernian Vice—which the Magna Carta seems to look back on with nostalgia—when the country's policy regarding foreign exchange was to dole out stingily, under controls, the very little it had rather than to increase the inflow of foreign exchange by promoting exports and by attracting foreign investment.

In passing let it be mentioned that the resolution nowhere directs attention to the Balance of Payments problem, low export earnings, the anemic reserve of foreign exchange and the sick peso. Not even by one of its facile fiats: International Payments shall be balanced; Foreign Exchange earnings shall be increased. Indeed, it makes recommendations which take for granted unlimited stocks and availability of foreign exchange. Just one example of very many: The proper industrial financing institution, run by the government, shall be provided with sufficient capability to satisfy the credit requirements of industry. Just like that. God Himself, in forming the universe, could hardly have been more creative. The credit requirements of industry extend not only to pesos but to foreign exchange, needed to import original equipment, to maintain it, to procure replacement parts and the steady flow, year in and year out, of raw materials for processing. Whence is this to be "provided" and by whom? The Magna Carta does not reveal this.

About the omnipotent state development authority, perhaps it is enough to recall the shivers which set businessmen trembling when they learned of the broad powers to be conferred upon the directors of the Board of Investments: to determine whether or not an enterprise qualifies for the investment incentives. The development authority would be granted far broader powers over businessmen.

It is recommended that the basic channels of distribution, as well as strategic industries, be turned over to Filipinos. Once again no clue is offered about where the capital means to acquire foreign-held enterprises are to come from. But an entirely new question is raised here: in economic activity, what is "basic" and "strategic" and what is not? What allows the fearsome stranglehold by which a group of businessmen puts the economy at their mercy and threaten its sovereignty? The catalog of strategic lines knows no end: farming, finance, shipping, trade, fuel—think of oil—power, water supply, steel, cement, chemicals, pharmaceuticals, medicine, teaching, moral counselling, garbage collection without which we could be wiped out, everyone has a stranglehold on everyone else. Which is just another way of stating that a social economy is an organism and that the functions of its organs are interdependent. One need not grip a man's throat to gain power over him; it is enough to catch him by the toe and never let him go. In a society where everyone pretty much needs everyone else, the mere question of what activities are vital and affected with a public interest illustrates the uncommon lack of economic perception so characteristic of this entire Magna Carta.

Pay no attention whatever to the sentence which states that foreign investment is welcome. The phrase was inserted in a later draft to placate critics offended by the tribal-minded nationalism of the earlier drafts. Even in the final draft the sentiment expressed is that foreign capital is welcome but...

—foreign borrowing shall be preferred to foreign investment;

—national treatment shall not be accorded to foreigners;

—all aspects of distribution shall be in Filipino hands;

—all financial institutions shall be controlled by Filipinos;

—"strategic industries" shall be treated like public utilities and shall gradually be placed under Filipino control.

Is this a fresh plan for development or another crude bit of chauvinism? What of the calvinistic exhortation that "austerity and self-reliance are the keystones to progress and national greatness?" Urging an economically unready people to be self-reliant is not unlike urging unlettered babes to teach themselves to read and write. Their efforts will be indispensable; but they are not sufficient unto themselves.

IV

This leads to a consideration of the role of foreign investment in underdeveloped economies. The claim has been put forward that policies of xenophobic nationalism have kept out foreign investment, with consequences tantamount to planned stagnation. The crux of the matter is this: if this country can modernize itself and grow rich on its own resources—human and natural—then it does not need foreign investment and the propounded claim collapses.

The role of foreign investment can best be reviewed historically. One can look at what it has actually done here in the past, as well as at the part it is playing now in those underdeveloped countries which are making a success of their development. The case of the Manila Electric Company is illustrative. It was set up early in this century, about 1903, when it was beyond the powers of Filipinos to set up and run an efficient electric public utility. Indeed, at that time, one might say that Filipinos lacked everything that was required: the capital, the foreign exchange, the mastery of the new technology, the entrepreneurs and managers, the skilled labor. Now—and since 1961—the company is chiefly in Filipino hands and continues to be an admirably run public utility. It is no longer beyond the power of Filipinos to run the company well because, over the years, Meralco was also a seminary where Filipino workers, in the beginning a dismally illiterate and unskilled mass, and Filipino managers were little by little schooled in the new arts. They were occupied in more rewarding jobs both in pay and personal improvement than they could otherwise have gotten. Budding managers learned by experience how a big, efficient business is run, so that the day eventually came when Meralco was smoothly transferred to Filipino ownership and management, made ready in part by Meralco's training.

This is just as important: Meralco is literally dynamic. It energizes other firms and makes their existence possible. It is a "growing point." It induces a multiplication of jobs far beyond the number of its own employees. Though this consequence is especially evident in the case of an electric power company, it happens to be true of every successful new firm. The more business there is going on, the more room there is for more business. While here we observe stagnation, unemployment and the waste of labor, the Japanese have begun to employ their superannuated women in construction and industry, because of the abundance of job openings and the shortage of male workers.

The story told about Meralco might have been told about Goodrich with one detail made sharper. The foreign partner in this joint enterprise is not only in possession of techniques and skills previously unknown here but also turns out a product with an established reputation and a market assured beforehand. Of the plethora of rubbertire manufacturers which grew up in the United States side by side with the automobile, only five survived, the fittest. They were those whose product was accepted by the market as the best offered. When Goodrich came here, it was already possessed of the high-quality product, the world-business savoir-faire and the resources of capital and management to quite ensure survival until the new venture got on its feet. The point is worth stressing; successful marketing is no less important than efficient production.

Economists are familiar with multipliers just as all are familiar with the wonder of growth. A jobless man who gets work earns an income which he spends as quickly as he can on the goods and services he had been going without—which other men then work to provide, and so the beneficent cycle spins. Jobs breed jobs; business generates business; it makes no difference what its nationality is.

At the historical stage of development where the Philippines finds itself, the normal state of things is for imports to outrun exports in value and for the balance in payments to be compensated by the inflow of net foreign investment. Mexico's case is typical. *The International Financial News Survey* of the International Monetary Fund reports that during 1968 Mexico experienced a net capital inflow of $645 millions, more than enough to offset its current-account deficit of $596 millions. Mexico is one of the countries making a success of its development especially instructive because it has much in common with the Philippines. It has a population of about the same skill, growing at about the same rate: 3.5% for Mexico's population in 1968. The notable differences are its higher levels both of employment and job-creation in industry and in the tertiary sector of the economy, its higher rate of growth—7.1%—of gross national product, its markedly higher import-capacity and its healthy balance of payments. Mexico's reserves of foreign exchange grew by about $50 millions in 1968, a sum which matches the unhealthy Philippine deficit. The Mexican peso is firm and the country's external debt manageable. Direct foreign investment in Mexico's case makes possible the importation of both consumer and capital goods far beyond what the country's exports and earnings from tourism can afford. This is enviable. It is also normal.

It is not normal at this stage for the Philippines to strive to pay for its imports with exports. The capital inputs this country needs for quickened development and for increased exports must be imported as liberally as can be. Foreign investment serves development incidentally in making possible a fuller importation of these vital inputs than can be paid for by exports alone. This is normal in the sense that it is the course which development has tended to follow in those countries whose start came somewhat later—Canada, Australia, even the United States during the first half of the 19th century. It is far from the chief contribution of foreign investment to economic development. It is a contribution by the way. Yet it is a substantial one. The present imbalance of payment, the weakened peso and the grave burden of external debt all bear witness to this.

That the experience of the Philippines is not parallel to that of Mexico is the consequence of a set of economic-policy choices made here. Foreign investment has an indispensable role to play in creating jobs for the jobless, in speeding up growth, introducing and keeping up-to-date complex and rapidly changing techniques of production and marketing, and in leveling off the country's foreign payments.

Economic problems here are formidable in themselves and severely difficult, given the finest conceivable policies. It is part of the national tragedy that policies have been purposely fashioned which place needless blocks in the way of forward movement.